

# The effectiveness of Modern Services on the Labour Market: 2006 Report of the Federal Ministry of Labour and Social Affairs on the impact of the implementation of the proposals by the Commission for Modern Services on the Labour Market (not including basic security benefits for job-seekers); Summary of the results

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# Information Material

## **The effectiveness of Modern Services on the Labour Market**

**2006 Report  
of the Federal Ministry of Labour and Social Affairs  
on the impact of the implementation of the proposals by  
the Commission for Modern Services on the Labour Market  
(*not including basic security benefits for job-seekers*)**

## **Summary of the results**

**Berlin, 20 December 2006**

## Summary of the results

Unemployment is a central problem in many economies – in modern welfare states as much as in less developed economies. However, unemployment has a social as well as an economic dimension. For many people, having a job is more than just an important prerequisite to secure a livelihood. In addition, adequate gainful employment or a good job provides social recognition, it promotes integration in society and often also contributes to a personal sense of fulfilment. Extended phases of unemployment have a profound impact on the standard of living achieved by individuals and on their situation in life. Taking up new employment often requires mobility – in professional as well as spatial terms – , thereby questioning longstanding social structures. For this reason, it is all the more important for labour market policy to support such adaptation processes which are very difficult for the persons affected.

Reducing unemployment and increasing employment are challenges of great importance to society as a whole and constitute priority concerns for the Federal government. In order to achieve these aims better than has been the case in the past, comprehensive structural reforms of the labour market have been laid down in law and – to a great extent – have been implemented in practice by now. The guiding theme of these labour market reforms is the concept of the *activating social state*. It is centred around a changed understanding of task-sharing between the state and its citizens. The labour market reforms strike a new balance in the pivotal area of life occupied by gainful employment, between support organised by the state on the one hand and the citizens' own initiative on the other, in accordance with the principle of "Fördern und Fordern", "providing support and making demands". This policy aims at strengthening autonomy and participation of citizens in the economy and the society.

The intention of the Federal Government's two-step plan (Zweistufenplan) and the Acts for Modern Services on the Labour Market (Gesetze für moderne Dienstleistungen am Arbeitsmarkt) was that of a realignment of labour market policy, including the Federal Employment Agency. The first two Acts for Modern Services on the Labour Market therefore served to realign all pivotal tools of active labour market policy, considering the overarching goals of *strengthening prevention, demanding more individual responsibility and creating greater flexibility*. In addition, framework conditions for the temporary employment sector were made more flexible and new rules were introduced for employment in the low-income sector for wages up to 800 EUR (mini- and midi-jobs). The issue at stake here was above all promotion of legal employment in the context of household-related services, also in private households. In addition, promotion of start-ups to overcome unemployment was reshaped through introduction of a grant for business start-ups (Existenzgründungszuschuss). Both laws entered into force on 1 January, 2003. The Third Act for Modern Services on the Labour Market which entered into force on 1 January 2004 i.a. provided the legal framework for a comprehensive reorganisation of the former Federal Employment Office to become a modern, customer-oriented service provider, the present-day Federal Employment Agency. This summary presents the framework conditions as well as the most important results of the multi-annual process of scientific evaluation from the perspective of the Federal Ministry of Labour and Social Affairs. An assessment of the results and recommendations for action elaborated by the researchers is not explicitly intended within the scope of this concluding report. Such endeavours will remain reserved for further political debate, for which this report aims to provide a factual basis. The recommendations for action made by researchers are not being dealt with in this summary (see chapter 4).

Following a resolution by the German Bundestag (BT-Drs. 15/98) of November 2002, the reforms were subjected to in-depth evaluation between the spring of 2004 and the middle of 2006 (after conceptual preparations in 2003). In accordance with said resolution, implementation of the proposals made by the Commission for *Modern Services on the*

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*Labour Market* (also known as Hartz-Commission) and the Federal Government's two-step plan as a whole were to be evaluated swiftly. Apart from reorganisation of the Federal Employment Office, items to be scrutinised extensively included further development of labour market policy tools, amendments of the Temporary Employment Act (*Arbeitnehmerüberlassungsgesetz*), and commissioning of responsibilities to third parties (*Auslagerung von Aufgaben auf Dritte*) as well as acceptance of the Federal Employment Office by its customers. Interim results were made available to the German Bundestag at the beginning of 2006 under the name of **Bericht 2005 Die Wirksamkeit moderner Dienstleistungen am Arbeitsmarkt** (2005 Report, The Effectiveness of Modern Services on the Labour Market) (BT-Drs. 16/505).

We hereby present the **2006 Report, The Effectiveness of Modern Services on the Labour Market**. Its outlines and structures are based on those of the interim report. All in all, the 2006 report confirms or reinforces the central statements of the interim report and – in many cases – puts them on a sounder basis. In some cases, however, deviations from the results became apparent. This assessment also provides an important foundation for a review of active labour market policy and subsequent realignment – as agreed in the coalition treaty concluded by CDU, CSU and SPD - in the year 2007.

The introduction of basic security benefits for job-seekers (Book Two of the Social Code) applicable from 1 January 2005 marks an important turning point in labour market policy. The four Acts for Modern Services on the Labour Market have created a two-part system, which, on the one hand, through employment promotion (unemployment insurance), comprises an insurance system financed through contributions, in accordance with Book Three of the Social Code. This part of the system forms a realm where entitlements are covered by the property guarantee whilst, on the other hand, a tax-financed basic security benefit for job-seekers (Book Two of the Social Code) is also part of the system. This benefit takes as a starting point the actual need of persons able to work who require assistance and that of their family members with whom they form a "community of need" (*Bedarfsgemeinschaft*), and is oriented towards the aim of enabling people to secure their own livelihoods independently, if at all possible. As a consequence of labour market reforms, the relative weight was shifted from the contribution-financed system of Book Three of the Social Code to the tax-financed system of Book Two of the Social Code. This shift reflects the political objective of using tax funds to a greater extent than before to finance labour market tasks of importance to society as a whole – such as supporting the long-term unemployed.

The Federal Employment Agency acts as a service provider in both systems. This report deals with the items to be examined in accordance with Book Three of the Social Code and their impact on the integration of unemployed persons into employment as well as the effects of amendments in employment policy framework conditions. Accordingly, the merging of unemployment aid and social aid into basic security benefits for job-seekers (Book Two of the Social Code), which is evaluated independently in accordance with two separate mandates for assessment by the law-making bodies (cf. sections 6c and 55 of Book Two of the Social Code) was not subject to evaluation. Other items that were not subject to systematic evaluation included: training measures, measures for occupational rehabilitation as well as measures for young persons. For these tools, the first three Acts for Modern Services on the Labour Market did not lead to any change in conditions under which benefits are granted.

The report before you presents, by way of conclusion, fundamental results of the evaluation of the Federal Employment Agency's restructuring and of the impact of labour market policy in Germany. In accordance with the mandate from the German Bundestag, the focus is on implementation and effects of labour market policy tools introduced or adapted within the reform as well as analysis and evaluation of these. Another important focal point is scrutiny of the Federal Employment Agency. The aim was to investigate conversion of the agency

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intended to build a modern service provider in the Labour Market and its impact on service provision. Lastly, the report also includes customers' perceptions regarding offerings and service provision of the Federal Employment Agency. Thus, the most comprehensive evaluation of German labour market policy so far was embarked upon, with the participation of more than 20 renowned research institutes and a total of approximately 100 researchers. This systematic review of the effectiveness of legal regulations in the area of labour market policy is an expression of adaptive and transparent policy-making. Legal provisions are no longer enacted for an unlimited period of time but they are put to the test in practice, they are subjected to scientific review and, if necessary, adapted or abolished. At the heart of all this is the interest of persons affected – the unemployed – and not a clinging to certain labour market policy strategies or regulations at all costs.

This report aims at facilitating a constructive political and academic discourse. To this end, detailed research results which - thanks to their differentiated character - provide a good factual basis are presented within a general overview. A fair debate will also include awareness of the limits of labour market policy. Fighting unemployment is a task which politics alone will not be able to shoulder. It is, to at least the same extent, a challenge for companies and trade unions. The Federal Employment Agency's labour market policy supports the process of balancing supply and demand in the labour market. It promotes occupational reintegration of unemployed persons, and, in particular, of persons who are disadvantaged in the market. However, the agency itself has only a limited ability to create jobs and cannot replace a comprehensive employment policy. This is a task primarily for finance, economic and social policy and requires interaction between these policy fields.

Evaluation of the results represented in the report must take into account the different observation periods and the different stages of reform in the areas under investigation during which analysis was conducted. Whereas research concerning the conversion of the Federal Employment Agency and its acceptance represents the period until spring 2006, investigations into the impact of tools were concluded well before that, i.e. they mostly relate to earlier periods. The causes of this lie in the availability of data and the requirement to include sufficiently long observation periods in research (the measure itself plus developments subsequent to conclusion of the measure). In practice, this meant that, during the period under review, most tools were not yet used under the conditions of a reformed labour administration. Research into the conversion and acceptance of the Federal Employment Agency in contrast dedicates itself to the changes aimed at making the agency a modern service provider in the labour market.

The results submitted in this report conclude the most comprehensive project for determining effectiveness and efficiency of labour market policy tools in German labour market research to date. Methodologically speaking, the research also represents a great leap ahead within German labour market research in terms of quality, since it consistently combines qualitative and quantitative methodological approaches as well as observing the principle of gender-mainstreaming.

The impact of labour market policy tools on the integration of unemployed persons into employment was investigated using microeconomic methods of analysis. With the help of the analysis conducted, statements can be made as to the integration effect of active labour market policy tools in beneficiaries as compared to a comparative group who were not supported using the tool in question. The pivotal criterion for success regarding the effect achieved is integration into employment. In this respect, evaluation is oriented towards scrutinising in how far the overriding legislative goal of integration has been achieved. As a rule, preservation or improvement of employability is measured in indirect terms only. Employability, the aim of market replacement and structural effects are only taken into account to some extent within the evaluation of job-creation schemes (Arbeitsbeschaffungsmaßnahmen or ABM).

As is the case for all empirical research, there are limits to the reliability of results. Methodologically speaking, measuring of efficiency and macro-economic effects in particular are still in the early stages. Nonetheless, the results of these analyses do indicate plausible tendencies which should be understood as rough reference values.

The 2006 report is a summary of evaluation results and recommendations for action presented by the researchers in eight individual reports, totalling over 2000 pages. These will be published in full. The research results show that crucial elements of reform contained in the first three Acts for Modern Services on the Labour Market and the labour market policy regulations of the Act on Reforms on the Labour Market (Gesetz zu Reformen am Arbeitsmarkt) have improved the prospects of unemployed persons for integration into employment and lead to increased employment – and have thus proven to be effective.

In this context, it needs to be underlined that the conversion of the Federal Employment Agency to become a modern and efficiently acting service provider is a step into the right direction. The Federal Employment Agency's activities are clearly gaining in transparency, effectiveness and economic efficiency. However, a comparatively one-sided business-economics orientation in managing the use of tools through differentiation of customers and action programmes was noticeable during the period under review and is to be viewed with criticism against the background of the legal mandate of employment promotion and with regard to the aim of avoiding long-term unemployment.

With the help of the core tools of labour market policy, faster integration into the labour market is achieved. These tools include promotion of further vocational training, promotion of employment through integration subsidy (Eingliederungszuschuss) and support for start-ups provided by the Federal Employment Agency in the form of transitional benefit (Überbrückungsgeld) or start-up grants (Existenzgründerzuschuss).

The new placement-related services add innovative elements to the labour market policy toolkit. These are not always successful, though. Placement vouchers improve integration prospects of unemployed persons, whilst no integration effect was established with regard to delegation of placement activities to third parties or commissioning of the implementation of integration measures to other providers.

Because of the new competitive elements in the area of placement-related services, it is to be assumed that measures with different contents are being experimented with. Seeing the heterogeneity in commissioning of integration measures to other providers, average values can be presumed to conceal both successful and unsuccessful measures. In this context, it is important to further promote competition between service providers and to pursue successful approaches, even beyond the regional sphere. Similarly, when it comes to delegation of placement activities to third parties, it is imperative to identify successful approaches and to further develop these.

Rules for the imposition of blocking periods (Sperrzeiten) as currently established have proven to adequately implement the element of "making demands" (fordern) contained in an activating labour market policy, as there is initial evidence suggesting that for agencies pursuing a consistent and credible blocking period regime, this leads to an increase in termination of unemployment *and* transition into employment.

Personnel services agencies (Personal-Service-Agenturen or PSA) and job-creation schemes (Arbeitsbeschaffungsmaßnahmen or ABM), in contrast, have not proven to be successful. However, the negative integration effect of ABM has declined during the period under review.

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Transfer benefits in accordance with Book Three of the Social Code (transfer short-time allowance or *Transferkurzarbeitergeld* and transfer measures or *Transfermaßnahmen*) are to avert impending unemployment on account of operational changes in companies. No impact of promotion through transfer benefits was identified as to the employment prospects of beneficiaries. Structural short-time allowance (*Struktur-Kurzarbeitergeld*), however, did have a negative impact on recipients' employment prospects before the reform; this negative effect has disappeared in the course of reform.

Lastly, effects are apparent when it comes to improvement of employment policy framework conditions. Further flexibilisation of the labour market has been successful: until the middle of 2006, an additional 1.56 Million persons were employed in so-called mini-jobs (mostly as secondary employment). However, mini-jobs have not proven to build bridges for unemployed to regular employment subject to social insurance. At the same time, almost 30,000 employment relationships subject to social insurance were secured or created until the end of 2004, in the form of midi-jobs.

### **Conversion and Acceptance of the Federal Employment Agency**

With the reform initiated by the Federal Government in the spring of 2002, a flexible service provider with responsible management and rigid success control was to be created. This meant a comprehensive overhaul of the former Federal Employment Office, a process that has not yet been completed. However, important elements of reform, such as the creation of customer centres (*Kundenzentren*) have been implemented on a broad scale. The whole process of conversion of the Federal Employment Agency has taken place and continues to take place in parallel to ongoing day-to-day business. For this reason, assessment of the process must, for the time being, remain preliminary. Conversion of the Federal Employment Agency is headed into the right direction, even though the agency has not yet mastered all challenges. Effectiveness, efficiency and transparency of the Federal Employment Agency's activities have experienced a marked increase thanks to a new management system, the introduction of systematic controlling and the new customer centres. Services are largely provided in a cost-conscious manner. In 2006 the Federal Employment Agency will generate a surplus because of economic developments and because of the realignment of labour market policy. Hence, the contribution rate to the Federal Employment Agency can be reduced to 4.2% and, through the reduction of non-wage labour costs, a contribution to increased employment will be made.

The Federal Agency increasingly manages its activities via targets which are bindingly agreed between different organisational levels. These include, in particular, (1) targets and the (2) budget allocated to achieve them. However, management mechanisms are not limited to target agreements but also include rules for the use of products (*Produkteinsatzregeln*) contained in the so-called action programmes (*Handlungsprogramme*), which set out the principles for use of labour market policy tools vis-a-vis customers. In addition, there are central requirements regarding (3) organisational structures, the customer centres and (4) work flow management, in particular concerning the placement process with differentiation of customers and procurement of labour market services. Unless specifications have been made by the legislative body or the Federal Agency's Central Office regarding (5) use of funds (*Fördern und Fordern* - providing support and making demands), Agencies have room for manoeuvre in using these. The new tools not only serve the purpose of organisational management but –for the first time – enable systematic management of the flow of customers. In this context, the Federal Employment Agency's staff are the most important resource to make its activities a success.

Every year, the Federal Employment Agency sets itself a number of business policy **targets**. These used to change year after year, but since 2004 targets are being developed further, taking the previous year as a basis. In 2006, there are to be noticeable improvements in counselling as well as (sustainable) integration, working processes are to be optimised, high customer satisfaction is to be achieved, staff are to be motivated and their capabilities are to

be fully capitalised upon. Every target is usually represented by one or more target indicators which are the object of a **target agreement**, within which a budget is also fixed. Target agreements are always concluded between the Central Office and Regional Directorates (Regionaldirektionen) and, in turn, between Regional Directorates and Employment Agencies. Although this is not provided for in the concept, target indicators are often transferred to teams within agencies and controlled by means of target agreements. The new management strategy provides an insight into agencies' processes and effects through controlling.

In principle, the approach of consistent target management on all levels seems to be useful. However, a problem that is becoming apparent in the implementation of the new management model is that agencies have a responsibility for the results regarding integration targets, but when it comes to concrete service provision, their room for manoeuvre seems to be rather limited and subject to relatively strict rules set out by the Federal Employment Agency's Central Office and Regional Directorates. For this reason, the indisputable advantages of the new management model using agreed impact targets have so far not been exploited in full. During the period under review, the simultaneous existence of parallel management mechanisms and a plethora of controlling data with little tolerance of deviations compromised achievement of the targets. A fundamental cultural shift in the Federal Employment Agency's organisation seems necessary in order to consistently capitalise on the advantages of target management. The Central Office must have confidence in the decentral competences of their staff to achieve the agreed targets better than would be possible through central management of details. As a last consequence, this also includes pooling responsibility for results and processes in the hands of one and the same entity.

Reform of the Federal Employment Agency took as a starting point the newly designed organisational and work flow structures of „Arbeitsamt 2000“ ("job centre 2000") as well as the original organisation in divisions which still existed in many job centres. The **customer centre**, a new model of structural organisation set out as a central requirement was introduced in all agencies until the end of 2005, after trials in selected agencies. It is considered the core of the Federal Employment Agency's internal organisational redesign. With the customer centre, the fields of action of counselling and placement on the one hand and benefits on the other hand were separated, as was the case with the original organisation in divisions but not with the organisational model "job centre 2000". The working-area of professionals working in these fields is preceded by a reception and an entrance zone. Furthermore, an online-portal as well as so-called service centres functioning as call centres are available as additional paths of access for customers. In addition, workflow management has changed with the introduction of customer centres, meaning that for the first time ever, the flow of customers is now managed systematically. An appointment is needed to see trained officers whose workload is eased through the preceding reception and entrance zone units. In March 2006, 50% to 70% of all queries were processed and completed in the entrance zone. Incoming calls, which used to interrupt working processes frequently are now being dealt with by the service centres. The customer centre thus serves to pool all requests and queries made by the agency's customers as well as incoming calls at one point and to distribute these in a target-oriented way or, in the case of simple queries, resolve them immediately.

The customer centre with its specialisation and expertise in the respective fields of counselling and placement or benefits as well as its systematic management of the flow of customers is an adequate organisational structure for the provision of services. Crucial objectives such as reducing the proportion of routine work to be performed by placement officers and managing the flow of customers have been achieved with the introduction of the new structural organisation. Qualified staff are now left with more time for high quality counselling and placement activities. For example, a minimum of 60% of employee-oriented placement capacity is now to be used for counselling and placement sessions, which is



considerably more than before the reform. This aim was nearly achieved by the average of all agencies in March 2006. In processing and processing of benefits, the target of processing at least 75% of all applications for wage replacement benefits on the same day was even surpassed in March 2006 with a rate of approximately 84%.

In implementing the customer centre model, some problems became apparent but were recognised and dealt with by the Federal Agency. These include, for example, shortcomings in qualification, since the entrance zone and reception units require high communicative skills as well as a broad range of subject-oriented qualifications. Staff were satisfied to a limited extent only with IT-support in the entrance zone. Customers complained about no longer having direct access to the professionals, primarily during the transition phase.

All in all, the customer centre enjoys good acceptance by staff as well as customers. However, microeconomic analysis found no proof of an overall impact on termination of unemployment or termination of benefit receipt directly after or through introduction of the customer centre.

The **virtual labour market** (Virtueller Arbeitsmarkt or VAM) with its coordinated software systems is to optimise employment placement processes and to increase placement success rates with the help of a uniform database. In detail, market transparency is to be improved and the process of balancing supply and demand in the labour market is to be accelerated, the proportion of routine work done by qualified staff is to be reduced and independent participation by customers in the process of balancing supply and demand in the labour market to be activated. Four functional units are to serve this purpose. In the online portal, customers have at their disposal i.a. a job exchange with a range of self-service functions for job search or applicant search. This is to fulfil customer needs without requiring customers to visit the agency in person, thus easing the workload of agency employees. Staff workload is to be reduced even further through the "Job-Robot", an internal IT-support system, and through a system for placement, counselling and information (Vermittlungs-, Beratungs- und Informations-System or VerBIS). The individual functional units will be introduced successively until the middle of 2006. Past experience in agency practice has shown that VerBIS works in principle. It reaches relatively high rates of agreement among staff from almost all functional areas.

However, individual elements still impede customer-orientation. Taking into account requests by customers for appointments at specific times, for example, meets with problems. The fact that the system automatically logs off after 10 minutes can also cause disruptions during counselling sessions. The two functional units that customers can access, online portal and job exchange are not yet being used by customers to the expected extent so that the desired effect of reducing employees' workloads has so far failed to materialise. The job exchange in particular demonstrates to have certain limitations regarding user-friendliness since it places high demands on customers' competence and time budgets.

The basis of practical application of the virtual labour market to date is restricted and thus does not yet allow for final assessment. Targets connected to the virtual labour market were so far not achieved to their full extent. Extension of self-service activity and an ensuing pronounced shift of market balancing processes from personal to virtual services has so far not reduced professionals' workload to the extent expected. In addition, workflow management has been amended primarily regarding **placement processes**. Customer differentiation and so-called **action programmes**, rules determined centrally for potential assignment of customers to labour market policy measures (Produkteinsatzregeln or rules for product use) are to enable target-oriented, custom-made placement and adequate use of tools. These will be introduced on a broad scale between the autumn of 2005 and the beginning of 2007 after a trial phase in selected agencies.

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On the *employee' side*, there are four different customer groups, with one or two action programmes assigned to every one of these. Market customers (Marktkunden) are able in principle to find suitable placement themselves and do not require cost-intensive assistance in the process; accordingly, use of tools is not envisaged for these customers. In the case of counselling customers for activation and promotion (Beratungskunden Aktivieren und Fördern), there is need for action. Activation or promotion promises to be successful in the short or medium term and adequate tools are to be used to this end. In the case of support customers (Betreuungskunden) action is assumed to be required in more than one respect (e.g. little professional experience, health problems, unfavourable labour market situation). Nonetheless, no promotion is supposed to be granted for such cases. This approach is based on the assumption that corresponding success would only be achieved after transition to benefits in accordance with Book Two of the Social Code and that therefore, support for these customers would not be profitable for the Federal Employment Agency from an insurance point of view.

According to initial data on the distribution in accordance with Book Three of the Social Code of unemployed persons by customer group, nearly one third of all persons newly unemployed at the beginning of 2006 were classified as support customers. The second largest group was that of market customers, followed by counselling customers for activation and support. The proportion of market customers was considerably higher in regions with a better labour market situation. Peak values in the proportion of support customers were achieved in agency districts with an unfavourable labour market situation. Meanwhile, efforts are being made to level out these pronounced differences.

For both market and counselling customers, placement fundamentally is the primary goal. The aim is for them to take up employment which is comparable to that pursued before unemployment. Depending on labour market conditions, this may also mean transition into self-employment as well as midi-jobs or moving on into training or university studies. The aim for support customers is to take up short-term employment or mini-jobs or voluntary work and publicly financed employment, unless transition into self-employment seems promising because of particular strengths.

Product use is prescribed in the action programme. In this context, placement staff are to offer cost-intensive measures only if the customer in question is sufficiently committed and motivated. The timeframe required as well as product costs and recommendations for reaction are stated for every product, among other data. Use of what product is not justifiable for a given customer group is set out in detail. Because of amendments to the concept, deviations from the prescribed logic of product use are now possible in well-founded individual cases.

On the *employers' side*, there are two customer groups and a total of four matching strategies. Companies are differentiated into target and standard customers. Target customers are companies which are presumed to have a high employment potential. Such companies are to be visited on a structured, unsolicited basis, whereas standard customers are to be visited only if there is a specific reason to do so.

For target customers, the Federal Employment Agency submits unsolicited proposals for suitable applicants (market customers), it organises assessment centres for employee selection and provides support in cases of staff reductions necessary because of operational requirements. In addition, agencies are to take particular care when processing vacancies of target customers to ensure that proposed applicants exactly fit customer needs and to take into account specific requests by the customer to a greater extent. In practice, however, hardly any difference has been established so far in the treatment of both customer groups.

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The four matching varieties differ in terms of the limitation criteria applied to search strategies, in the way contact is made and in the intensity of pre-selection of applicants. For purposes of pre-selection, agencies identify so-called "top employee customers" (Top-Arbeitnehmer-Kundinnen und –Kunden) who are to be given preference in placement with the most important employee customers.

Whereas employee customers who are presumed to be able to help themselves are, in principle, to be granted only *little* support by the agencies, employers who, according to the evaluators' assessment are most likely to be able to help themselves well are given the *greatest* amount of support. Moreover, the logic of matching strategies provides for target customers to receive unsolicited proposals for suitable applicants from the agencies. This is in contradiction with the action programmes for employees.

The Federal Employment Agency's staff consider employee **action programmes** as largely positive, now that the concept - which proved to be very rigid during the introductory phase - has been made more flexible. Staff underline an increase in transparency and clear structures for progression of a placement interview. However, some placement officers feel that action programmes are too restrictive. A fundamental exclusion of support customers from many benefits and measures is supported by most employees at all levels; nonetheless, vehement criticism of this approach has been voiced in single instances.

Employer placement officers' assessment of action programmes for employers is positive overall. Moreover, members of management surveyed saw a clear improvement of employer-oriented placement activities after the introduction of customer centres.

In general, the 2006 report confirms the following assessment: consistent reduction of cost to the community of the insured in terms of *business economics* as well as a hitherto strong focus on the quantitative target of "integrations" have lead to a situation in which the target of early intervention to avoid long-term unemployment (section 6 of Book Three of the Social Code) and to thus minimise the cost to the economy as a whole as well as other economic and social policy targets set out in Book Three of the Social Code have drifted too far away from the Federal Employment Agency's field of vision. In particular, this strategy leads to conflicts with longer-term requirements in the area of basic security benefits for job-seekers (Book Two of the Social Code), meaning that cost reduction for the *economy as a whole* expressly fails to be achieved.

Hence, consideration should be given to an adequate procedure that ensures pursuit of the legislative targets set out in Book Three of the Social Code by the Federal Employment Agency to be more comprehensive in future. Moreover, individualising of action programmes through adequate prognosis regarding the efficiency of measures for each individual case to support target-oriented and, above all, preventive assignment remains a challenge. This does not mean that the Federal Agency's orientation towards economic efficiency and efficacy so far achieved is to be questioned. Rather, orienting labour market policy management towards effectiveness and efficiency is not the same as a short-term optimisation of business economic cost targets. General economic and social policy targets can also be implemented effectively and efficiently. Thus, rational management of the Federal Agency needs not contradict these objectives in any way.

Structural and work flow organisation also includes procurement. Originally, labour market services were purchased by individual job centres. In the meantime, the task of purchasing labour market services has been assigned to seven newly-founded regional procurement centres (Regionale Einkaufszentren or REZ). The aim is to separate requesting and contracting entities, to create legal certainty for the Federal Employment Agency and to reduce cost through competition. Centralisation of procurement has reduced room for action for those agencies who used to have a good cooperative relationship with third parties, whilst

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agencies which experienced problems in the field of quality assurance in the past are profiting. The quality of labour market policy services has a decisive impact on their effect. For this reason, price-conscious procurement needs to be linked with systematic opening up of innovation potentials through competition for quality.

The most important resource of a service provider which strives for pronounced customer-orientation is its **staff**. Active involvement of staff in the top-down process of reform was insufficient, as was commented by employees themselves. Nonetheless, employees continue to feel motivated although overall motivation has declined. Nearly all employees have been affected by changes of organisational unit or by alterations of their work profile during the process of reorganisation to date. As a consequence, comprehensive training measures were implemented. Restructuring was accompanied by advancement of the personnel development plan. The plan's five modules are in different stages of implementation. Assignments and transferring of executive functions on probation, for example, are two important tools for personnel development which already exist. An incentive bonus linked to individual performance was tested, with initial experience assessed heterogeneously. In the medium term, a lack of employee involvement in the reform process constitutes a risk for employee motivation and quality of services that should not be underestimated.

**Customer satisfaction** on part of unemployed persons receiving benefits in accordance with Book Three of the Social Code with their local Employment Agencies has seen a slight overall improvement during the last years. In the period from the spring of 2004 to 2006 more than half of customers surveyed said to be satisfied or very satisfied with their local Employment Agency. In contrast, satisfaction of employer customers with individual aspects of their most recent contact with the agency showed an ambivalent picture. All the same, companies' intention of recommending the agency to others as an expression of stable customer loyalty has risen slightly between 2004 and 2006, from 53.6% to 54.3 %.

Against the background of an unfavourable labour market situation during the period under review, little has changed regarding public perception of the Federal Employment Agency and its acceptance, despite fundamental changes in work-flow processes and individual labour market tools. Unemployed persons receiving benefits in accordance with Book Three of the Social Code as well as employers and the general public were surveyed regarding their perception of the Federal Agency as a modern service provider. No fundamental change was registered in comparison with the same survey, carried out two years earlier, thus indicating need for improvement. Taking the survey's results as a basis, it is impossible to determine whether the term of "modern service provider" is too vague or whether changes are perceived to a limited extent only. The fact that the Federal Employment Agency has gained in reputation in comparison to earlier surveys, in particular among persons receiving unemployment benefits in accordance with Book Three of the Social Code, indicates that the former may be the case. Gains were made in particular where assessment of speediness and customer friendliness were concerned.

### **Realignment of Labour Market Policy**

A central subject of investigation for the evaluation of labour market policy instruments and – reform is their impact on integration of unemployed persons into gainful employment. Increasing the prospect of integration into gainful employment and improving employability of unemployed persons are essential approaches to strengthening individual autonomy and, at the same time, enhance citizens' participation in society. In the course of evaluation, important labour market policy tools some of which existed for decades as well as recent innovations in labour market and employment policy were subjected to critical assessment.

The number of persons participating in **subsidised further vocational training** has declined considerably over the last years: the number of persons newly entering further training

measures has dropped by 75 % from 523,000 in the year 2000 to as little as 132,000 in 2005, with half of all persons newly entering further training ranking as unemployed in accordance with Book Three of the Social Code. In the course of reform, Employment Agencies have changed their business policy orientation from supporting further vocational training to a stronger observance of integration targets and efficiency. Further training funded in accordance with Book Three of the Social Code was linked more closely to placement into employment. For this reason, more weight is now attached to bringing further training in line with available vacancies and demand on part of employer customers. A practice that has clearly lost in importance is that of focusing the granting of measures on groups of persons in particular need of support and orienting measures towards the demand of employee customers. A central element of management is the newly introduced education target planning (Bildungszielplanung) on part of agencies, which specifically incorporates short-term labour market demands.

The targets formulated by the Central Office of a forecast continuation rate<sup>1</sup> of 70% as a condition for the approval of measures and for individuals participating in programmes to have as high as possible a likelihood of integration have lead to a selection of best candidates (*Creaming*). From the point of view of Employment Agency staff, this trend has been reinforced through the introduction of education vouchers (Bildungsgutscheine), since well-qualified persons are better prepared than others to make use of the freedom of choice connected to these. This is seen as a problem mostly by placement professionals and less so by agency management. At the same time, it is being emphasised that positive developments such as reducing the number of problematic cases in training measures and drop-out rates can only be achieved through selection of participants. On the whole, it has thus become more difficult to promote persons with a low level of vocational qualification with the help of these measures.

There is a high degree of need for corrective measures since training programmes sometimes cannot be organised due to insufficient numbers of participants. This problem could be dealt with by handing out more education vouchers than required in accordance with education target planning. This does not seem to be common practice in agencies, however.

The relationship between Employment Agencies and education providers has changed fundamentally in the course of reform. Communication relationships have become more one-sided and existing networks have disintegrated, a development which is expressly criticised by providers. Providers' economic situation has tended to deteriorate, as well. Assessment of the reform by this group is correspondingly negative; the reform was seen as positive by only 6% in the spring of 2006. On the other hand, changes in access to training measures constitute an important approach to achieving more economic efficiency.

In the spring of 2005, the first external certifying bodies for approval of providers and measures were established. By April 2006, 23 such expert bodies had been approved. According to the experience made by these bodies, many providers were not aware of the necessity of certification. There also is great uncertainty as to the mode and contents of application. Cooperation between certifying bodies and Employment Agencies regarding quality assurance after certification has been rare until now. Comments made by the certifying bodies surveyed were critical of employment agencies' level of information regarding new certification procedures.

Agencies' sceptical attitude towards certifying bodies is expressed by a distinct deterioration in the assessment of this element of reform between the spring of 2005 and the spring of

<sup>1</sup> Percentage of successful participants terminating unemployment within a period of six months subsequent to the measure.

2006. Overall however, agency staff rated the realignment of promotion of further vocational training and in particular the fixing of a forecast continuation rate as rather positive.

Quantitative impact analyses of the period prior to reform came to the conclusion that in particular participants in relatively lengthy subsidised further training measures which lead to a certificate in a recognised profession were employed clearly more frequently than comparable non-participants. Initially, however, participation in subsidised vocational training measures hinders employment, since placement activities as well as persons' own job-seeking activities are stalled during participation in the programme (the so-called lock-in-effect). Lock-in-effects were reduced through the reform in all six training types investigated, with measures ranging from short-term qualification modules to acquiring a diploma in a new profession. Moreover, shorter further training measures after the reform have a markedly positive effect on participants' employment prospects. Regarding measures with a longer duration, the observation period after the reform is too short to establish potential improvements in the effects achieved by such measures. The majority of improvements cannot be attributed to changes in participant structures, as is often suggested, but is, to a greater extent, a consequence of improvements in measures' quality.

**Integration subsidies** (Eingliederungszuschüsse) are fixed-term wage subsidies which can be paid to employers who hire employees in need of assistance. Development of the annual rate of new employment relationships promoted by way of integration subsidies has been very inconsistent over the last years. In 2005, the number of subsidised new employment relationships was 130,000, around 55% of which were accounted for by cases in accordance with Book Three of the Social Code. In addition, there has been a clear shift in the group structure of first-time beneficiaries. In particular, the proportion of East Germans and persons aged 50 and over among first-time beneficiaries has declined considerably. A clear shift away from long periods of promotion comprising a minimum of one year and over to shorter periods of promotion can also be observed. Integration subsidies continue to be one of the most important labour market policy tools. They are seen as a sensible tool both by management and placement officers in Employment Agencies, since they result in immediate integration into an employment relationship subject to social insurance. As a conclusion from the evaluation, it can be stated that the amendments introduced on 1 January 2004 have hardly affected Employment Agencies' use of the tool at all; a reorientation towards greater observance of effectiveness and economic efficiency in using these subsidies had already started before. After all, placement officers themselves stated to have had sufficient room for manoeuvre, even before the reform, and hardly any changes have occurred because of the new rules.

Quantitative impact analyses have indicated that the 2002 redesign of integration subsidies for older unemployed persons increased employment prospects of East German women eligible for promotion whilst no such effect was found in Western German women and men. Further analysis of the general impact of integration subsidies lead to the conclusion that persons assisted in this way showed a *higher* frequency of unsubsidised employment subject to social insurance subsequent to promotion measures and applicable periods of follow-on employment than others in a comparison group of unemployed persons. In this respect, too, particularly great differences can be observed in East German women. There is no definite evidence for further improvements brought about by the reform. In this respect, it should be noted that changes were to a great extent oriented towards the structures as already existed in practice. An important effect of employment promoted through integration subsidies is presumably that of activating persons who otherwise would no longer have been available for the labour market. It is the Federal Employment Agency's responsibility to use integration subsidies in a targeted way so as to bring in particular those unemployed persons into employment who are difficult to place. Seeing that surveys revealed clear evidence of deadweight effects, agencies would be well-advised to avoid these in future.

According to microcensus data, around 344,000 persons took up self-employment as their first or only employment between June 2003 and March 2004, nearly a third of them women. In 2005, nearly 248,000 new start-ups by previously unemployed persons received assistance from the Federal Employment Agency. 37 % were accounted for by the newly created **start-up grant** (Existenzgründungszuschuss or Ich-AG). Introduction of start-up grants has not generated any negative effects on persons claiming **transitional benefit** (Überbrückungsgeld); the number of new beneficiaries receiving transitional benefit rose continuously until 2004. Transitional benefit was paid for a duration of six months. The individual rate of benefit was composed by the amount of unemployment benefit received by beneficiaries before or to which they would have been entitled in case of unemployment, plus a fixed rate for applicable social insurance contributions. Ich-AG start-ups were eligible for up to three years of promotion; promotion was designed to be degressive over the course of time with 600 EUR per month paid during the first year, 360 EUR per month in the second and 240 EUR per month in the third year. Annual income from self-employment was to be no higher than 25,000 EUR. Since promotion in the form of both transitional benefit and start-up allowance is no longer possible for persons receiving basic security benefits for job-seekers (Book Two of the Social Code), in accordance with Book Two of the Social Code as enacted on 1 January 2005, the number of new beneficiaries has declined slightly in 2005 for both tools. The proportion of women was continuously and distinctly higher for Ich-AG start-ups than for transitional benefit and also exceeded women's overall share of newly founded businesses.

Most Employment Agencies are unable to offer substantial counselling for founders. On the one hand, there is a lack of expertise in the field, on the other hand, this does not lie within their responsibility. However, many agencies have taken to actively recommending self-employment to unemployed persons who seem capable. What is more, many persons wanting to start their own business do not expect agencies to provide any further counselling other than information about financial support. Detailed assistance is more likely to be expected from external information offices. Some founders make use of start-up counselling only to conform with agencies' requirements, others are interested in counselling themselves. Counselling institutes consider a business-plan elaborated by founders an important prerequisite for a successful start-up. The business-plan is also taken seriously as a decision-making tool. However, founders' handling of the business-plan differs greatly. In-depth interviews with founders have revealed no clear nexus between intensive and systematic use of counselling for founders and start-ups' success in business. Founders who were still self-employed at the time surveyed largely had a positive attitude towards the future. Discontinuations of self-employment were caused not only by insufficient income or lack of orders/customers but also by the fact that people failed to earn enough to safeguard social security entitlements. The majority of founders started their own business without a loan; it remained unclear during research whether this was intended or whether efforts were made but no loan granted. Investigations at banks have shown, at any rate, that previously unemployed founders are indeed seen as a particular credit risk.

Quantitative impact analyses have shown that founders promoted by the Federal Agency were employed *more frequently* during a period of up to 28 months after the beginning of promotion than a comparison group of persons who were unemployed at the point of time when founders started receiving support. Differences mostly were more pronounced in East Germany than in West Germany. Promoted start-ups by persons previously unemployed thus belong to the effective measures in labour market policy and both tools of promotion yield sizeable positive effects for promoted self-employment. In the case of start-up grants, promotion continued at the end of the observation period but did so on a low level. For this reason, statements on the sustainability of promoted start-ups are possible even now. Despite overall effects of promotion being positive, there is nonetheless evidence of deadweight-effects. Disincentives of promotion inherent to the system therefore cannot be ruled out. As of 1 August 2006, a new start-up subsidy serves to replace the promotion tools

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of start-up grants and transitional benefit, the aim being to make more efficient use of support funding and to make support more transparent for founders. The new allowance was designed partly drawing on the results of the 2005 report.

From the beginning of 2005, due to new regulations, recipients of wage replacement benefits in accordance with Book Three of the Social Code are entitled to a **placement voucher** (Vermittlungsgutschein) after only six weeks of unemployment. Every voucher is valid for a period of three months. Since the beginning of 2005, the placement bonus is a uniform amount of 2 000 EUR. The first instalment of 1 000 EUR is paid once employment subject to social insurance is taken up or, since the beginning of 2005, six weeks after. The remaining amount is awarded only if the employment relationship lasts for a minimum of six months. In the case of placement vouchers – unlike other placement tools – providers as well as unemployed persons have the opportunity to freely choose their placement partners. Freedom of choice of private placement providers reduces the risk resulting from performance-related remuneration. In the course of research, placement vouchers proved to be a tool for active job-seekers and to presuppose the competence to make use of the freedom to choose between various private work placement agencies. Access to private agencies is difficult: in many cases, there is a lack of information regarding competence and quality of agencies. With support from the Federal Government, the industry has meanwhile agreed on quality standards. Application of these, however, is binding for industry association members only.

The number of placement vouchers handed out has increased over the course of time. In 2004, 714,000 vouchers were handed out but only 54,000 of these were redeemed. For 2005, there is no data available on the number of placement vouchers handed out, but around 50,000 vouchers were redeemed (Employment Agencies and joint agencies in accordance with Book Two of the Social Code). Hence, in 2004 less than one in ten vouchers handed out lead to successful placement and was thus redeemed. There is a host of different reasons for the discrepancy: for example, not all persons in possession of a voucher solicited the services of a private placement agency, the tense labour market situation during the period under review made it problematic even for private placement agencies to find vacancies and in some cases, employment offered was not taken up. Generally speaking, the figures indicate that placement vouchers have tended to support entry into unstable employment relationships.

Quantitative impact analyses found that unemployed persons who obtained a placement voucher in 2005 terminated unemployment through integration into employment *earlier* within a period four months than comparable unemployed persons without such a voucher. A placement voucher thus improves unemployed persons' integration prospects. This result deviates from the 2005 report (Drs. 16/505) which found placement vouchers to have no impact. The Federal Employment Agency's expense per voucher redeemed was 1,474 EUR in the year 2005.

Because of the reforms and above all because of changes in the central requirements regarding applicant activation, **blocking periods** on account of rejection of an employment offer temporarily more than doubled in 2003. At the end of 2005, though, the number of blocking periods imposed was similar to 2002-levels again. However, with the introduction of basic security benefits for job-seekers (Book Two of the Social Code), the group of persons on whom blocking periods can be imposed has declined considerably. The imposition of blocking periods is very cumbersome because of a high number of objections and frequent legal action. In the course of reform, objections made against blocking periods on account of rejection of an employment offer first declined in frequency, but in 2005 the objection rate rose again to reach 2002-levels. Reversal of the burden of proof has thus failed to lead to an effective reduction in objections in this context. In agency districts where the number of blocking periods rose in connection with labour market reform, the number of persons



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terminating unemployment has increased as have transitions into employment or sustainable employment subject to social insurance, in 2004 in particular, *because of* a stronger expectation that potential sanctions will indeed ensue. Blocking periods thus constitute an important regulatory tool with a twofold function: they aim to prevent misuse of benefits and to increase integration of unemployed persons into acceptable employment.

Since the end of 2005 employees had to register as job-seeking at least three months prior to termination of employment or apprenticeship or in the case of dismissal at a later point of time, within three days of being informed of their dismissal, in order to avoid sanctions under benefit legislation. The introduction of an **early reporting duty** is connected to the expectation that early placement efforts will help to avoid unemployment and wage replacement benefits (job-to-job placement). The intention of early reporting was welcomed by staff on the ground but implementation of the goal of early placement was hardly achieved at all during the period under review. The intended comprehensive support and advice was almost never provided. Placement efforts often failed due to insufficient cooperation on part of job-seekers, because persons were not allowed the necessary release from their current employment to participate in training measures and because of the unfavourable labour market situation. Thus, in 2005 only a small proportion of persons who registered early (7.5%) managed a direct transition into new employment. The majority of persons went into unemployment (69.8%). In this context, job-to-job transitions succeed more frequently in regions with a more favourable labour market situation. Regarding early reporting duty, after being confident initially to be able to avoid unemployment in many cases, disillusion with implementation so far clearly prevails among staff on the ground.

Changes in the fields of reasonability and blocking periods are of clearly subordinate significance for Employment Agencies' daily practice of stronger activation of unemployed persons. Entry into force of Book Two of the Social Code, in contrast, has led to greater efforts on part of applicants from the point of view of agency staff.

Structural short-time allowance and social plan measures were redesigned and renamed **transfer short-time allowance** and **transfer measures** from 2004 and were subsumed under the term of transfer benefits in Book Three of the Social Code. The aim of these tools is to avoid impending unemployment on account of operational changes. Promotion of participation in transfer measures is a *compulsory* benefit granted by the Federal Employment Agency. Subsidies for transfer measures are fixed at 50% of the expenses incurred in connection with the measure, albeit up to a maximum of 2,500 EUR per beneficiary. Employers are required to make a substantial contribution towards the cost of the measure. Eligible for support are all measures which improve employees' integration prospects. The requirement for persons to be able to claim transfer short-time allowance is that there be a lasting lack of work. Employees affected must be grouped together in an independent unit of corporate organisation (e.g. a so-called transfer corporation or *Transfergesellschaft*). Employees must undergo profiling to establish their integration prospect before participating in the transfer. Transfer short-time allowance is paid for a maximum of 12 months. In 2005 the average number of persons benefiting from promotion in the form of transfer short-time allowance was approximately 19,500. Data on participants in social plan or transfer measures are not available within the Federal Employment Agency's statistics.

In principle, Employment Agencies have a positive attitude towards these tools. In the spring of 2005, two thirds of managing directors from 124 agencies who had experience with transfer benefits assessed them to be effective tools to pre-empt unemployment and to open up new ways and means of placement and integration otherwise not accessible for agencies. Complaints were voiced, however, that agencies were involved by companies planning staff adjustments at too late a stage to win them over for transfer benefits. According to statements made by providers of transfer measures, the shortening of the maximum period

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of support for transfer short-time allowance as compared to structural short-time allowance has made it more difficult to use this tool for purposes of early retirement. Quantitative impact analyses found no effect of promotion by means of transfer short-time allowance or transfer measures on employment prospects of persons supported after the end of the promotion period. This result is to be seen as preliminary and not yet reliable. Before the reform, structural short-time allowance had a negative impact on the employment prospects of persons promoted; this negative effect has disappeared in the course of reform, a fact which can be considered a first success of reform.

Since the beginning of 2003 Employment Agencies have the possibility to commission integration measures to other providers. In principle, all activities serving the purpose of the integration target can function as integration measures unless these are covered by other tools of Book Three of the Social Code. Generally speaking, compensation consists of a flatrate reimbursement of expenses and an integration fee paid for successful integration. In the course of 2004, **commissioning of providers with integration measures** (section 421i of Book Three of the Social Code) was undertaken for around 36,000 job-seekers. Placement officers often view the work of providers thus commissioned as a means of support rather than competition since this tool is used to activate particularly problematic groups of customers for whom placement officers in agencies often cannot use sufficient resources themselves. However, employment Agencies' management often are of the opinion that providers have so far failed to make use of the scope for experimentation provided by the tool. Quantitative impact analyses found *no* proof that unemployed persons promoted through integration measures take up employment earlier than comparable unemployed persons without such support *because of* the measure. Thus for all new beneficiaries observed taken together, no impact of integration measures on integration of unemployed persons can be identified. However, implementation at the Federal Agency does not seem to use the full potential afforded by this tool. Thus, initial evidence of a positive integration effect of integration measures as mentioned in the 2005 report (Drs. 16/05) was not confirmed.

In the course of 2005 there were 426,000 instances of **commissioning of** either complete **placement processes** or parts thereof to third parties (Section 37 of Book Three of the Social Code). Beneficiaries fall into both categories of commissioning roughly in equal measure. Young persons under the age of 25 were represented strongly. Only a third of commissioned cases fell into the legal system of Book Three of the Social Code. Unemployed persons are legally entitled to having placement assigned to a third party after six months of unemployment. Apart from commissioning the whole placement process or parts of it to third parties, agencies may also commission them with canvassing for vacancies. Implementation was heterogeneous and is marked by the conflict of cooperation and competition between agencies and private providers. In particular where commissioning of the complete placement process is concerned, agencies and third-party providers often have a competition-oriented perception of their own role. Agencies have a strong influence on performance-related compensation of private providers through selection of participants; private providers criticised contractual regulations as being unclear in this context. In the years 2003 and 2004, the Federal Employment Agency had an average expenditure of 604 EUR per participant for commissioning third-party providers with complete placement processes; the amount increased to 755 EUR in 2005. Quantitative impact analyses found *no* proof that, because of the commissioning, unemployed persons for whom placement was commissioned to third-party providers terminated unemployment faster (including periods of commissioning of third parties) by way of integration into employment than comparable unemployed persons with no such promotion. Hence, no effect on integration prospects of unemployed persons was identified. However, in this context as well, implementation at the Federal Agency does not seem to make use of the full potential of the tool.

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From the beginning of 2003, at least one **Personnel Services Agency** (Personal-Service-Agentur or PSA) was to be founded in every agency district. PSAs employ unemployed persons on fixed-term contracts and lease them primarily to other companies. The aim, however, is not leasing as such but long-term employment at one of the companies to which the leased employee is deployed. In times where there is no demand for leased employees, PSAs are to support their employees in finding employment outside the PSA and in engaging in qualification and further training. Since 2005 employment contracts are, as a rule, limited to a minimum of six months. PSAs' remuneration structure combines expense- and performance related components. Flatrate payments for expenses have since been at a uniform rate of 500 EUR per month for the first six months of employment at a PSA. Placement premiums are determined through competition but must not exceed 3,500 EUR.

Even before May 2003 every agency district had its own Personnel Services Agency or PSA. However, the target planned for 2003 of having a stock of 50,000 PSA employees was not achieved. In 2005 there was an annual average of 17,000 PSA employees. With 28,000 persons newly entering PSA employment in 2005, women were underrepresented at less than a third, in line with general patterns in temporary employment. Young persons below the age of 25 were clearly overrepresented, at least within the legal system of Book Three of the Social Code, at 55%. For PSA employments reviewed, the Federal Agency incurred an average expenditure of approximately 6,939 EUR per participant in the years 2003 and 2004. In place of the assignment of participants as practised so far, agencies have since 2005 had the option to set up a pool of applicants from which PSA operators can make recruitments. In difference to other tools, this saves both parties from suffering disadvantages on account of selection of participants that lies exclusively with either agencies or providers. Successful PSA operators often rely on experience gained in commercial or integration-oriented employee leasing. Nonetheless, shortcomings in implementation are reported from practice.

For example, some of the providers who prevailed in competition for new PSA contracts are not interested in placement-oriented employee leasing but merely wanted to profit from the flatrates paid over the six-month support period as a kind of wage subsidy. Staff in charge of awarding the contracts at regional procurement centres however presume that contractual provisions on target requirements and contract penalties will, in the long run, oust such dubious providers from the market. Shortcomings in implementation are reported by PSA employees, as well. Contrary to the duty to offer further training in times when no temporary work is available, only 30% of employees who took up PSA employment in 2003 and 23% of the same group in 2004 reported that they had been offered vocational training, despite the fact that only 3% and 9% respectively had no periods without temporary work.

Quantitative impact analyses found that PSA employees terminate unemployment or PSA employment through integration into employment *later* than comparable unemployed persons, *because of* PSA employment. In accordance with today's level of knowledge, PSAs thus initially deteriorate participants' integration prospects on account of the lock-in-effect (reduction of placement- and applicant's own job-seeking activities). Keeping this in mind, the high proportion of young persons newly entering PSA employment is to be assessed with particular criticism.

The Federal Employment Agency promotes fixed-term employment of unemployed persons in need of support through subsidies towards wage costs in the form of **job-creation schemes** (Arbeitsbeschaffungsmaßnahmen or ABM). Employment must be additional and in the public interest. In accordance with promotion criteria for ABM, it is no longer necessarily integration prospects that are to be improved but employability of assigned employees. Local labour market policy stakeholders pursue targets in five different areas through ABM. Whilst the targets of market replacement during problematic labour market situations and involvement of specific target groups refer to the scope and structure of the use of ABM, the three other targets are genuine impact targets (see below).

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The number of persons promoted through ABM and average duration of promotion has declined strongly throughout recent years, with unemployment rising. From 2000 until 2005 the number of ABM-employments newly taken up declined markedly by 70% to a mere 78,000, with only 21% accounted for by Book Three of the Social Code. The decline was even more explicit in the stock: annual average stock decreased from 2000 to 2005 by more than three quarters to 48,000. ABM were focused on agency districts experiencing problematic situations, particularly in East Germany; this corresponds to the target of market replacement. In line with the target group envisaged, the proportion of persons in particular need of assistance was continuously high during recent years. East Germans as well as persons aged 50 or over and persons below the age of 25 were clearly overrepresented among those newly entering ABM employment as compared to the stock of unemployed persons at the time. As a consequence of the introduction of Book Two of the Social Code, ABM are of marginal importance only for Employment Agencies' work in the ambit of Book Three of the Social Code and currently function as a tool for a small group of unemployed persons looked after by agencies.

The three impact targets were achieved to varying degrees:

- Labour market integration: The use of ABM should be reserved for unemployed persons strongly disadvantaged in the market and without foreseeable integration prospects. The recently observed increased concentration of target groups has the potential to make a decisive contribution to achieving that requirement. According to quantitative effect analyses, however, ABM employees terminate unemployment or ABM employment through integration into employment *later* than other comparable unemployed persons, *because of* this type of ABM. ABM thus lead to a deterioration in participants' integration prospects. ABM's negative effects on integration occur (as is the case with most other tools) during the first months, since the intensity of efforts made to obtain a regular job will be rather limited during periods of ABM promotion (the so-called lock-in-effect). ABM's negative impact on integration rather declined during the period under review, though. Further quantitative impact analyses found that ABM started in April of the years 2000 to 2005 lead to a deterioration in *sustainable* integration into employment in the whole of Germany. For the years 2000 to 2004, this was especially true of West Germany, whereas in East Germany, as a rule, no negative effect was identified. Sustainable integration in this context is understood to mean integration into employment with a minimum duration of six months.
- Employability: employability has been a legal target of ABM since 2004 and includes at least a vocational, psycho-social and health-related dimension. The result is assessed by former ABM employees in such a way that their *situation* in all three dimensions was seen as more positive during ABM employment, but perceived as slightly more negative afterwards than before participation in ABM. For a relevant proportion of participants, ABM resulted in positive consequences such as new occupational knowledge or an increase in well-being.
- Structural effectiveness: there is exemplary proof of ABM's structural effectiveness. For example, in some cases regional infrastructure was improved through ABM. This is, however, simultaneously connected to the risk of replacement of regular employees. In addition, temporary demand effects were triggered, supporting regional economies. In East Germany in particular, labour market policy stakeholders pointed out wealth creation, strengthening of regional purchasing power as well as contributions to a balanced society and to preserving social peace as benefits of ABM. However, there are no quantitative results available which would lend themselves to generalisation.

Invoiced expenses by the Federal Employment agency were an average of only 850 EUR per participant in accordance with Book Three of the Social Code, and thus nearly 30% below those of 2004, before separation of the legal systems of Book Three and Book Two of the Social Code.

Various elements aim at improving **labour market integration of older employees**; success in this field has failed to materialise so far, though. However, the corresponding tools are still little known both to Employment Agencies' placement officers and companies.

Since the beginning of 2003 employers hiring employees aged 55 or over are exempt permanently from employment promotion contributions. This **contribution bonus** (Beitragsbonus) is a benefit companies are entitled to, with no additional application required. The entitlement merely needs to be claimed when the employee is registered for social insurance.

Evaluation undertaken to date has found that the contribution bonus was a largely unknown tool which was used exclusively by well-informed companies experienced in promotion funding matters. Knowledge of the tool is extremely limited, even at Employment Agencies.

This is i.a. due to the fact that collection of contributions for all branches of social insurance is organised by health insurance funds and that these are in charge of granting the contribution bonus. On the whole, the number of companies claiming the bonus was very small: in the year 2003, there were around 9,000 new employment relationships for which employers claimed a contribution bonus; in 2004 the number was approximately 3,600, according to preliminary data. The focus of promotion was in East Germany. Within quantitative impact analysis, no influence of the contribution bonus on employment prospects of persons entitled to it was identified, something which could not be expected to be otherwise, seeing the small number of cases concerned. Results are in line with statements made by 30 companies promoted, the overwhelming majority of whom would have employed the applicants in question anyhow, even without the contribution bonus.

**Income security for older employees** (Entgeltsicherung für ältere Arbeitnehmer) comprises, on the one hand, a subsidy towards the wage of beneficiaries, if they decide to take up employment that is less well-paid than their previous job and, on the other hand, an additional contribution to statutory pension insurance, covered by the Federal Employment Agency. Income security is a compulsory benefit to be paid by the Federal Employment Agency, which has no administrative discretion in granting it. However, use of this benefit is influenced by the Federal Agency's information policy vis-a-vis potential users. Nonetheless, income security benefits were of no strategic importance in Employment Agencies during the period under review. For this reason, but also because of a lack of knowledge on part of placement officers, there was no active promotion of the tool in interviews with persons entitled to it.

One of the reasons for placement officers' rather restrained information practice was their pessimistic assessment of older employees' situation in the labour market. They presumed that the most important reason for the small number of persons claiming income security benefit was not so much the provisions of the tool or their practice in dealing with it but rather low demand for older employees on part of companies. It would be useful for agencies to pursue an activating use of this tool: one option would be pointing out to elderly persons already at the beginning of unemployment, irrespective of concrete job offers, that taking up new employment will in many cases mean that they will have to accept lower wages, but that this can be alleviated through income security benefit.

Nonetheless, agencies were important sources of information for persons who do end up making use of income security benefit. On the whole, however, the number of persons claiming income security benefit was very small. In the year 2005, newly awarded benefits totalled approximately 5,300. The majority of persons thus promoted received a wage subsidy of up to 285 EUR per month or 9.50 EUR per day. Net wages in new employment were thus up to 570 EUR lower than before. Agencies' practice in dealing with the prerequisites for entitlement to income security benefit was inconsistent. In some agencies, a high proportion of applications for promotion was rejected, despite the legal entitlement, because of a restrictive interpretation of the requirements for benefits to be granted. Users of the tool largely assessed it as being positive. Quantitative effect analyses found no proof of an impact of the introduction of income security benefit on the employment prospects of persons entitled to it. This was not expected to be otherwise, considering the small number of cases concerned.

The minimum age for employees who can be **employed on a fixed-term basis without material reason and without time limit** was lowered in 2003 from age 58 to age 52. Towards the *end* of such a fixed-term employment, the company may dismiss the employee regardless of provisions on protection against dismissal. Until now, a temporary limitation of employment without material reason of up to two years was permissible anyhow, irrespective

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of age. As a consequence, employees from the age of 50 can now be employed on a permanent fixed-term basis without material reason, by means of rollover contracts.

The Federal Labour Court ruled in April 2006 on the basis of a decision by the European Court of Justice that fixed-term employment without material reason, based exclusively on special provisions for older persons alone, is invalid. However, this ruling was not relevant for empirical analysis since the data on which analysis is based were collected before.

In March 2004 around 3% of employees in the age group of 48 to 65 years worked on a fixed-term contract. Whereas the proportion was just over 2% in West Germany, it was between 5% to 9% in East Germany, depending on the age group. Between 0.7% and 1.7% of all employees aged 52 to 65 worked on a fixed-term contract for more than two years, again depending on the age group, with figures considerably higher in East Germany. There were differences between men and women in this respect, concerning proportions as well as changes in progression over time - no uniform pattern could be identified, though. Overall, developments indicate that the provisions facilitating fixed-term employment relationships of employees aged 52 or older introduced in 2003 were not (yet) being used in March 2004. Knowledge of and interest in the new provisions on part of companies was very limited. Quantitative impact analyses found no effect of facilitated fixed-term employment on the number of newly-hired employees aged 52 or older.

### **Improvement of framework conditions for employment policy**

Reform of framework conditions for employment policy was analysed regarding its effects in terms of numbers and structures of employment relationships reformed.

Since the beginning of the 1980ies, the number of employees in temporary employment (including Personnel Services Agencies or PSA) has increased, most recently and dramatically after the reform. The annual average number of persons in temporary employment rose considerably in the years from 2003 to 2005, from 114,000 to 444,000. At the same time, 738,000 new employees were recruited by the approximately 16,500 temporary employment agencies in the course of the year 2005. Compared to its size, the industry thus has a clearly higher than average proportion of new recruitments. On the whole, short-term employment of up to three months continues to dominate among employment relationships terminated in the temporary employment industry.

This makes temporary employment a small but very dynamic market segment. The reform of temporary employment is very well known among employee leasing firms and potential leasee companies, albeit not in detail. With deregulation, longstanding demands of the industry were implemented and its assessment of the reform is correspondingly positive. The non-discrimination clause applicable vis-a-vis employees of the leasee company which can be replaced by a collective agreement only was viewed with criticism, in contrast. However, the nondiscrimination clause represents no major problem in practice. The overwhelming majority of companies decided in favour of applying a collective agreement to temporary employees. Thus, for the first time ever in Germany, large parts of the temporary employment industry are covered by collective agreements. Trade unions' assessment of the reform varies, complaints were voiced in particular about the fact that collective agreement provisions were not respected by all leasing firms. The relationship between the temporary employment industry and PSAs was less tense in the spring of 2006 than it was in the spring of 2005. Quantitative analysis found that by the end of 2004, there were around 29,000 additional employees in the temporary employment industry (including PSA) *because of* the reform of temporary employment.

New rules were introduced on 1 April 2003 for so-called **mini-jobs**, low-wage employment relationships which profit from favourable treatment regarding social security contributions: Among other things, the gross wage threshold was raised from 325 EUR to 400 EUR per

month and the previously existing working time limitation of 15 hours was abolished. Mini-jobs continue to be exempt from social insurance contributions for employees, whereas flatrate contributions to be paid by employers were raised slightly to 23% (25% including a flatrate payment for tax). In June 2006<sup>2</sup> there were around 6.8 Million mini-jobbers, 2.6 Million more than before the reform of the end of March 2003. Taking into account reclassification of 740,000 persons in secondary employment subject to social insurance and of 340,000 employees with a monthly wage between 326 EUR and 400 EUR whose status changed because of the reform, the increase after the reform is 1.56 Million, for 390,000 of whom this is the only employment and for 1.17 Million of whom it is their secondary employment. Mini-jobs were relatively frequent in West Germany, in the services industry and among women. Above all, young and older men as well as middle-aged women were represented strongly among those for whom mini-jobs are the only employment.

On the whole, mini-jobs and mini-job reform were well-known. The new rules for mini-jobs were assessed as being positive by trade associations. Greater flexibility has been created in the labour market. Quantitative analyses have found that, without the reform, the share of mini-jobbers as a proportion of all persons in dependent employment would not have changed to a meaningful extent, at least until the end of December 2004. The growth in the number of mini-jobbers until that date, amounting to 1.45 Million, is thus to be attributed to the reform. It can be assumed that growth until June 2006 by a total of 1.56 Million mini-jobbers – according to preliminary figures – can also be ascribed to the reform. Because of the high proportion of persons in secondary employment, effects on the number of employed persons were limited: this figure rose by 390,000. Survey results indicate that this type of employment has not helped to build bridges for unemployed persons into employment subject to social insurance. There are no objective findings available as to the question to what extent a substitution of regular employment subject to social insurance has taken place.

In parallel to the reform of mini-jobs, midi-jobs were introduced on 1 April 2003. In cases where the income limit of 400 EUR is exceeded, employee contributions to social insurance now apply successively. The regular contribution rate is payable for gross wages of 800 EUR or more only. According to first estimates, nearly 700,000 persons held a midi-job at some point in time between April and December 2003, 75% of them women. The share of midi-jobbers in West and East Germany was roughly the same. Whereas many West German, middle-aged women viewed midi-jobs as particularly attractive because they facilitated reconciliation of working and family life, a different group of midi-jobbers considered their employment a stepping stone to "normal" employment. According to statements by midi-jobbers, 6% of midi-jobs were created through wage reductions. The average gross wage per hour of midi-jobbers surveyed was 8.41 EUR in West Germany and 6.39 EUR in East Germany. Midi-jobs were clearly less well-known than mini-jobs. As a consequence, employers are not aware of the existence of a sliding scale. Quantitative analyses have found that the introduction of midi-jobs has lead not only to a stabilisation but even to a slight growth in this employment sector with its special privileges. Until the end of 2004 the reform has secured or created employment for 30,000 current midi-jobbers. There is initial evidence that midi-jobs may serve to build a bridge into full-time employment.

Generally speaking, the results of the evaluation of the improvement of framework conditions for employment policy can be summarised as follows: flexibilisation of the labour market was continued and new employment potentials were opened up in certain segments. However, the new provisions have contributed to a very limited extent only to overcoming unemployment.

## Results of macro-economic evaluation and benchmarking

<sup>2</sup> Preliminary results of late September 2006



Macro analyses of the years 2001 to 2005 conducted on the basis of other data than that used for micro-econometric analysis have shown that implementation of the Acts on Modern Services on the Labour Market from 2003 had a positive impact on net terminations of unemployment (the difference between persons entering and terminating unemployment) to take up employment in the primary labour market. This applies *irrespective* of the scope of active labour market policy measures implemented. The reason for this may be reinforced activation of unemployed persons. According to benchmarking results, East Germany has reduced the performance<sup>3</sup> gap compared to West Germany through the reforms initiated, although the gap widened again in 2005 as compared to the two preceding years.

Macro analyses have not succeeded in finding proof of a positive effect of the *level* (expenses in EUR) of active labour market policy as a whole on net terminations of unemployment to take up employment in the primary labour market. Positive effects can be assumed to be most likely for East Germany. However, these results only apply to the individual mix of labour market policy consisting of both possibly successful and possibly counterproductive measures. Evidence of successful individual tools of active labour market policy is given in the following by benchmarking as well as macro analysis results.

Findings from benchmarking and macro analysis indicate that above all start-up promotion in the form of transitional benefit and start-up grant but also support for further vocational training and wage subsidies are superior to other measures of active labour market policy. What is more, both analyses coincide in pointing out that the impact of promotion of further vocational training through reforms introduced has developed favourably on a continuous basis since 2003, as compared to other measures of active labour market policy. Benchmarking and macro analyses also concur in the finding that promotion of start-ups continues to be superior to promotion of further vocational training and other measures of active labour market policy but that the gap is closing.

The findings concerning development of effects of wage subsidies fundamentally consisting of integration subsidies, in correlation with the effect of the promotion of further vocational training immediately after labour market reform are ambiguous. According to benchmarking results, labour market impacts of wage subsidies may even have developed more favourably since 2003 because of the reforms introduced than in promotion of further vocational training. Macro analysis in contrast indicates that the impact of wage subsidies during this period has developed unfavourably in comparison. Nonetheless, both analyses agree in finding that labour market effects of wage subsidies developed more favourably in 2005 than those of promotion of further vocational training.

The findings of both analyses on the development of the labour market impact of ABM over time as compared to that of other tools are inconsistent and therefore cannot be interpreted.

The contradictory results of benchmarking and macro-analysis may result from different target values: benchmarking uses a combined indicator for overall performance, whereas macro analyses uses of net terminations of unemployment.

### **Differences in impact by gender**

Evaluation was conducted taking into account the principle of gender-mainstreaming. In this context, a range of gender-specific effects of reform became apparent: for example, considering the relatively small share of women in the stock, higher than average positive labour market effects were achieved for women through reform of temporary employment. For men, the integration effect of the placement voucher is positive to an above average extent. In addition, men's share of additional employment created by the reform in the form of

<sup>3</sup> Measured with the help of a combined indicator, consisting of a number of labour market policy target values.

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mini- and midi-jobs is higher than that of the respective stock, which is characterised by a high proportion of women.

The results of benchmarking and macro analysis offer almost no indications as to relevant gender-specific differences regarding labour market impacts and their development. Nonetheless, ABM will have led to better labour market effects in women than in men as compared to other measures of active labour market policy in the years 2003/2004 in West and East Germany. At the same time, benchmarking results indicate that, during the same period, in West and East Germany, wage subsidies were more successful in men than in women as compared to other tools.

The effect of employment promoted through integration subsidies on persons remaining in non-subsidised employment subject to social insurance as well as avoiding unemployment or promotion benefits from the Federal Employment Agency is, as a rule, highest for women in East Germany receiving such assistance. Similar to the results from research into the impact of integration subsidies for unemployed persons aged 50 or older, it is above all women in East Germany who profit in terms of remaining in employment. Generally, the effects of integration subsidy are slightly higher in women than in men as well, albeit not always to a statistically significant extent. From an impact-oriented point of view, the fact that the share of women who had access to the tool was 35% seems problematic and means that part of the tool's potential is wasted.

Where Ich-AG start-ups were concerned as well as transitional benefit, women were doing slightly better on the whole, although results are not always significant. The effective difference as compared to men is the same for both transitional allowance and Ich-AGs so that clear differences in access (women's share of transitional allowance in 2005: 27%; Ich-AG: 48%) cannot be justified with claims of impact-oriented management. Despite the fact that both tools are compulsory benefits and thus subject to self-selection, counselling-based management of beneficiaries on part of agencies is indeed recognisable. Regarding the new start-up subsidy, an increase of the share of women promoted, aiming for values similar to those found in Ich-AGs would be recommendable from an impact analysis point of view in order to make full use of the tool's potential.

The results for women regarding *sustainable integration* through ABM in 2005 may not show integration success but assignment of persons suffering strong disadvantages in the market leads to a clear reduction in the negative impact of ABM: for both participants and the comparison group, the likelihood of remaining unemployed is over 90%. Among men, in contrast, apparently even persons with integration prospects are prompted to participate in the measures, so that ABM can develop an effect that is clearly negative.